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Approved by: **Michael Henney, Regional Director/ATO, U.S. Consulate, Dubai**

Prepared by: **Asif Farrukh, Ag Specialist**

U.S. Embassy, Islamabad

Report Highlights:

Pakistan's MY 2003/04 wheat production is forecast at 19 Million Metric Tons (MMT), assisted by widespread rains throughout the country in February 2003, and by an increased usage of fertilizer and herbicide inputs. Even with a large draw down in the government held stocks, the country is forecast to import 1.5 MMT. The GSM-102 program should help the U.S. remain competitive in the important soft white wheat market.

Pakistan's MY 2003/04 rice crop is forecast at 4.5 MMT, another strong showing for this major rice exporting country. Exports are forecast at 1.6 MMT.

Includes PSD changes: Yes
Includes Trade Matrix: No
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Executive Summary

Market Year (MY) 2003/04 wheat production is forecast at 19 million metric tons (MMT) based on a higher crop yield. Even with such output Pakistan would remain a net wheat importer, with import volume forecast at 1.5 MMT, despite a better harvest and an anticipated heavy draw down in government held stocks. Thus far in MY 2002/03, Pakistan has exported 870,000 metric tons (MT) of wheat. New export bids for publicly-owned stocks are being accepted, at least until later in March. By then, the harvest will have started in the Sindh province and the full impact of the liberal sale policy embraced recently by this administration would have become much clearer.

MY 2003/04 rice production is forecast at 4.5 MMT, better than last year's crop though slightly constrained by a late planting of IRRI rice. MY 2003/04 rice exports are forecast at 1.6 MMT while ending stocks are expected to grow.

WHEAT

Production

Marketing Year (MY) 2003/04 wheat production is forecast at 19 million metric tons (MMT), an increase of 4 percent over last year's crop, due to an expected increase in the yield. Favorable weather - light rain in January 2003, a widespread rain across the country in February, and higher use of production inputs - nitrogenous fertilizers (a 25 percent increase in use), phosphatic fertilizers (use up 39 percent), herbicidal use on a broader scale compared to the corresponding period a year earlier should generate a positive reaction in this next crop. Assuming seasonal temperatures remain constant, the 1 percent decrease in total planted area forecasted should not dampen prospects for this year's wheat crop.

Pakistan continues to be entrapped in a water shortage many consider as the worst since the world's largest contiguous irrigation network became operational in the 1970's. Water supplies for irrigation currently stand 50 percent below normal, compared to 74 percent below normal for same period a year ago. Regardless, water supplies remain well below levels enjoyed in more plentiful years. Water for irrigation mainly is gathered in two large reservoirs -Tarbela and Mangla, during the summer for use during "Rabi," or the winter growing season. About two-thirds of the country's water for irrigation is sourced from snow and glacier melts, with the remainder derived from seasonal monsoon rains.

The current acute water shortage is the result of several weak monsoons, and inadequate glaciers and snow melts resulting from below normal snow fall, and cooler-than-normal temperatures. The Indus River System Authority (IRSA) currently projects water supplies for irrigation would be depleted by the end of March, leaving only river flow, which is below average at this time of the year, available to farmers.

Since the irrigation system was completed in the 1970s, demand has increased more than 50 percent while storage capacity has decreased one-third due to silting, leaving per capita availability at a fraction of its original level. As a result, chronic shortfalls in water supplies available for irrigation are expected to play an increasingly larger constraint on Pakistan's agricultural advancement in the absence of more systematic planning and management of water resources.

In addition to the water supply situation, this year's output will be affected by a delayed planting in areas where wheat is double-cropped with sugarcane. The sugarcane crop was harvested late due to a dispute over farmgate pricing thus

causing a delay in wheat sowing.

In Sindh Province, where the shortage of water is less severe than last year, the crop is good. In this province ground water in most areas is alkaline and not fit for tubewell irrigation, necessitating a greater reliance on canal water. In the Punjab province, where extensive tubewell irrigation is utilized, the crop is generally considered to be in above average condition. With the bulk of the Punjab crop about to enter the grain-formation stage, adequate irrigation and moderate temperatures during the month of March will be critical for the success of this year's output. Condition of the highland crop, which comprises 10 percent of total production, is in better shape as compared to last year's crop.

Table 1: Wheat Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Wheat				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		05/2001		05/2002		05/2003
Area Harvested	8250	8100	8300	8057		8000
Beginning Stocks	3628	3728	2201	2691		517
Production	19023	19023	19500	18226		19000
TOTAL Mkt. Yr. Imports	350	235	500	250		1500
Jul-Jun Imports	350	235	500	250		1500
Jul-Jun Import U.S.	46	46	0	0		1000
TOTAL SUPPLY	23001	22986	22201	21167		21017
TOTAL Mkt. Yr. Exports	1000	495	1000	900		600
Jul-Jun Exports	1000	495	1000	900		600
Feed Dom. Consumption	400	500	400	400		400
TOTAL Dom. Consumption	19800	19800	19750	19750		20000
Ending Stocks	2201	2691	1451	517		417
TOTAL DISTRIBUTION	23001	22986	22201	21167		21017

Consumption

Consumption is difficult to gauge. With wheat export now legal, cross-border trade with Afghanistan will now be captured as an export whereas before it was captured as domestic consumption. Prior to October 2002, domestic flour and bread prices generally remained stable due to large government stocks. However the quick draw down of government-held stocks and limited availability of supplies in the open market due to a small crop, as compared to last year, are combining to push wheat and product prices upwards.

Consumer preferences are shifting, from traditional flat bread to western style loaf bread, particularly in urban areas where it is viewed as a convenient breakfast food, and, from traditional home-ground flour to commercially-produced flour. The change in preference from higher to lower extraction flour is translating to greater consumption of wheat. Demand for specialized products also is expected to increase in response to changing lifestyles more supportive of western-style fast food chains recently introduced into the country.

Pakistan's wheat milling industry is privately owned. Principle milled products include "midda" (which is a 72 percent extraction flour used for loaf bread and other products) and "atta" (which is an 82 percent extraction flour used for flat breads). For quality and price reasons millers prefer to mix local semi-hard white wheat with imported soft white wheat at a 60:40 rate. Although consumers traditionally prefer white bran wheats, millers can blend up to 20 percent bran wheats to produce "atta" and up to 10 percent to produce "midda" while still producing an acceptable product.

Under ongoing reforms the government is removing itself from regulating the market and is reducing the remaining consumption subsidy offered for wheat. With the market better able to set price, advantages' accrued for buying from or selling to the government is dissipating. With removal of many restrictions on wheat transportation and storage, the government is creating an environment better to facilitate trade. Further, for the first time, the State Bank of Pakistan (Central Bank) now authorizes commercial banks to provide private sector financing for wheat purchase. If the government stays the current course, barring a natural disaster, this year's wheat market should be regulated only by stock availability and international price.

Trade

MY 2003/04 Pakistani wheat exports are projected to be minimal.

Traditionally, Pakistan is a wheat importer. It is expected that wheat would be imported near the end of MY 2003/04, especially if the government's liberal domestic sales and wheat export policy (including reduced export subsidies) continue. At the moment the GOP appears to be less interested in exporting additional wheat prior to new crop arrival in May/June 2003. MY 2003/04 import volume is projected to be larger based on a combination of a smaller MY 2002/03 ending stock, the initial smaller MY 2003/04 crop forecast, stronger open market prices and strong domestic demand. Political pressures may increase demand for government release of subsidized stocks onto the market which leads most observers to believe that imports would be necessary to avoid a crisis during the second half of MY 2003/04. An alternative measure would be for the GOP to reduce the duty on private sector imports to stabilize prices.

Pakistan's MY 2002/03 and MY 2001/02 wheat import consisted of World Food Program donations for Afghan refugees housed both in Pakistan and Afghanistan. The United States traditionally has been the primary wheat supplier to the Pakistani market due to quality and reliability reasons. Australia, however, has made significant inroads into this market through the use of predatory pricing, cheap freight and credit, and other nonmarket tactics. Stock availability, however, is curtailing their efforts in the current year. Canada is an occasional supplier to this market.

The Australian Wheat Board (AWB) considers Pakistan to be a premium market. The AWB often commands a premium of \$10 or more in this market over better-quality U.S. soft white wheat (SWW) FOB prices by virtue of its freight advantage. The AWB also receives an additional premium through the manner in which Pakistan tenders.

Although June is when U.S. prices are lowest and the government already has a clear idea on the local crop size, thus import requirements, the GOP generally waits several months before buying. As a result, Pakistan buys more wheat late in the year and via large tenders. Although U.S. participation in these tenders ensures the required competition, timing is such that the tender offers are much higher than should be necessary. Pakistan could save significant foreign exchange by procuring earlier in the summer when prices are much more attractive. With the more liberalized environment, this buying practice may change.

Import duties/taxes are as follow:

wheat - 25 percent import duty, 15 percent sales tax

flour - 10 percent import duty, 15 percent sales tax

Stocks

MY 2002/03 ending stocks are expected to fall to the lowest level in a decade, driven down by the current incentives to export. The GOP holds most of these stocks through various provincial food departments. Unless imports increase to augment carry-over stocks, the MY 2003/04 ending stock is expected to remain at a critically low level.

RICE

Table 2: Rice Production, Supply and Demand

PSD Table						
Country	Pakistan					
Commodity	Rice, Milled				(1000 HA)(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		11/2001		11/2002		11/2003
Area Harvested	2115	2115	2100	2201		2210
Beginning Stocks	432	432	164	9		137
Milled Production	3882	3882	3850	4228		4500
Rough Production	5824	5824	5776	6343		6751
MILLING RATE (.9999)	6666	6666	6666	6666		6666
TOTAL Imports	0	0	0	0		0
Jan-Dec Imports	0	0	0	0		0
Jan-Dec Import U.S.	0	0	0	0		0
TOTAL SUPPLY	4314	4314	4014	4237		4637
TOTAL Exports	1450	1605	1000	1400		1600
Jan-Dec Exports	1500	1603	1100	1400		1600
TOTAL Dom. Consumption	2700	2700	2750	2700		2750
Ending Stocks	164	9	264	137		287

TOTAL DISTRIBUTION	4314	4314	4014	4237		4637
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Production

MY 2003/04 rice production is forecast at 4.5 MMT based on expected larger yields from more timely planting of IRRI rice. In MY 2002/03, Basmati production totaled 2.1 MMT (about 120,000 MT more than the previous crop) and IRRI production totaled 1.87 MMT (170,000 MT more than the previous year).

Recently the government indicated it would reduce water distribution for March through early May 2003 as water supplies available for irrigation are 50 percent below normal. This announcement was made prior to the heavy rains that last for about 72 hours in the catchment areas of the Tarbela and Mangla dams. Any cut in water distribution is expected to affect the IRRI rice crop more than the Basmati crop. The IRRI crop generally is grown in areas that rely heavily on canal irrigation, while Basmati is grown in areas employing large scale tubewell irrigation. Based on the source of the water input, the Basmati crop is expected generally to be sown on time, while the IRRI crop, which mainly is grown in Sindh, is expected to be sown slightly later. The government discontinued setting a procurement price for paddy and milled rice, and did not purchase any paddy rice during either MY 2001/02 and MY 2002/03.

Consumption

Rice is not a staple commodity in the Pakistani diet. Its consumption is increasing slowly as compared to that for wheat. About 60 percent of the crop is destined for local consumption with the remainder exported. The government does not maintain official grade standards for rice. Annually an estimated 150,000 metric tons, 40 -100 percent broken, is used in poultry feed.

Trade

Pakistan is a major exporter of rice. MY 2003/04 trade projection is for 1.6 MMT of rice to be exported, consisting of 600,000 MT of Basmati and 1 MMT of IRRI rice. All trade is conducted by the private sector as the state owned Rice Export Corporation was abolished several years ago. Today, another state trading agency, the Trading Corporation of Pakistan (TCP), plays a limited role in the rice trade by facilitating government-to-government exports through the private sector. The GOP, in consultation with the Rice Exporters Association of Pakistan (REAP), has established a quality review committee to certify the quality of Pakistani rice prior to shipment in an effort to boost the image of Pakistani rice, especially that of Basmati rice.

Rice exports by destination data are not available for MY2001/02 or CY2002. Of the total 1.6 MMT of rice exported during MY 2001/02, IRRI rice exports totaled 1.034 MMT and Basmati exports totaled 571,000 MT.

Stocks

MY 2003/04 ending stocks are projected to increase due to an increase in production. All rice stocks are held by the private sector and are small lots.